

TOWNSHIP OF ISABELLA
Isabella County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Isabella	County Isabella
Audit Date March 31, 2006	Opinion Date June 27, 2006	Date Accountant Report Submitted to State: July 7, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Accountant Signature Campbell, Kusterer & Co., P.C.		Zip 48707	

TOWNSHIP OF ISABELLA
Isabella County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

June 27, 2006

To the Township Board
Township of Isabella
Isabella County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Isabella, Isabella County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Isabella's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Isabella, Isabella County, Michigan as of March 31, 2006, and the respective changes in financial position thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2005.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF ISABELLA
Isabella County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

The Management's Discussion and Analysis report of the Township of Isabella covers the Township's financial performance during the year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2006, totaled \$467,768.61 for governmental activities. Overall total capital assets remained approximately the same.

Overall revenues were \$516,941.44 from governmental activities. Governmental activities had a \$2,775.30 decrease in net assets.

Taxable value was \$45,613,533.00.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

This annual report consists of the basic financial statements and required supplementary information.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole. The statement of net assets includes all the Township's assets and liabilities. The statement of activities records all the current year revenues and expenses regardless of when received or paid.

All of the activities of the Township are reported as governmental activities. These include the General Fund.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Our cash position in governmental activities remains stable. This year we had work done on Isabella Road which was funded by money received from the Saginaw Chippewa Indian Tribe.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for all of the Township's governmental services. The most significant are roads which incurred expenses of \$379,541.72.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$7,078.29 in capital assets. The Township's governmental activities paid \$0 in principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very uncertain and it represents a significant portion of our income. We continue to grow in taxable values with little demand for infrastructure, except good roads.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is intended to provide our taxpayers, creditors and investors with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report, please contact the Township at 3929 E. Rosebush Rd. Rosebush, Michigan 48878.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS

March 31, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	<u>409 391 38</u>
Total Current Assets	<u>409 391 38</u>
NONCURRENT ASSETS:	
Capital Assets	160 119 29
Less: Accumulated Depreciation	<u>(101 742 06)</u>
Net Capital assets	<u>58 377 23</u>
TOTAL ASSETS	<u>467 768 61</u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>-</u>
Total Current Liabilities	<u>-</u>
NONCURRENT LIABILITIES	<u>-</u>
Total Noncurrent Liabilities	<u>-</u>
Total Liabilities	<u>-</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	58 377 23
Unrestricted	<u>409 391 38</u>
Total Net Assets	<u>467 768 61</u>
TOTAL LIABILITIES AND NET ASSETS	<u>467 468 61</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	6 155 99	-	(6 155 99)
General government	59 428 67	4 208 88	(55 219 79)
Public safety	47 657 79	-	(47 657 79)
Public works	380 532 40	300 000 00	(80 532 40)
Culture and recreation	10 916 72	-	(10 916 72)
Other	15 025 17	-	(15 025 17)
Total Governmental Activities	<u>519 716 74</u>	<u>304 208 88</u>	<u>(215 507 86)</u>
General Revenues:			
Property taxes			45 023 85
State revenue sharing			124 039 55
Interest			7 356 76
Miscellaneous			<u>36 312 40</u>
Total General Revenues			<u>212 732 56</u>
Change in net assets			(2 775 30)
Net assets, beginning of year			<u>470 543 91</u>
Net Assets, End of Year			<u>467 768 61</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
March 31, 2006

<u>Assets</u>	<u>Total (General)</u>
Cash in bank	
Due from other funds	408 200 16
	<u>1 191 22</u>
Total Assets	
	<u>409 391 38</u>
<u>Liabilities and Fund Equity</u>	
Liabilities:	
Total liabilities	<u>-</u>
Fund equity:	
Fund balances:	
Unreserved:	
Undesignated	
Total fund equity	<u>409 391 38</u>
	<u>409 391 38</u>
Total Liabilities and Fund Equity	<u>409 391 38</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

March 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	409 391 38
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	160 119 29
Accumulated depreciation	<u>(101 742 06)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>467 768 61</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended March 31, 2006

	<u>Other Funds</u>
Revenues:	
Property taxes	45 023 85
State revenue sharing	124 039 55
Charges for services	2 216 88
Interest	7 356 76
Rent	1 992 00
Miscellaneous	<u>336 312 40</u>
Total revenues	<u>516 941 44</u>
Expenditures:	
Legislative:	
Township Board	6 155 99
General government:	
Supervisor	19 416 15
Clerk	11 895 26
Board of Review	1 734 40
Treasurer	14 495 18
Building and grounds	3 097 65
Cemetery	6 477 70
Public safety:	
Public safety	47 657 79
Public works:	
Highways and streets	379 541 72
Street lighting	990 68
Culture and recreation:	
Parks	8 817 38
Other functions:	
Insurance	5 225 00
Retirement	9 164 35
Payroll taxes	635 82
Capital outlay	<u>7 078 29</u>
Total expenditures	<u>522 383 36</u>
Excess (deficiency) of revenues over expenditures	<u>(5 441 92)</u>
Fund balances, April 1	<u>414 833 30</u>
Fund Balances, March 31	<u><u>409 391 38</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (5 441 92)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(4 411 67)
Capital Outlay	<u>7 078 29</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>(2 775 30)</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Isabella, Isabella County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Isabella. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Joint Venture – Isabella Northeast Fire District

The Township is a member of the Isabella Northeast Fire District, which is a joint venture of the village of Rosebush and the Township's of Isabella, Vernon, and Denver. Each unit appoints a representative to serve on the five-member Isabella Northeast Fire District Board, along with a member selected at large. The Fire District Board is responsible for adopting the annual budget. The costs of operation of the Fire District are shared among the units based on their portion of the total State Equalized Valuation of the Fire District Annual contributions to the Fire District are made based upon the budget.

The Fire District is audited and reported separate from the Township.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2005 tax roll millage rate was .9872 mills, and the taxable value was \$45,613,533.00.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$3,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	20-80 years
Equipment	5-20 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective April 1, 2005, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Township's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$58,377.23.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated two banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

Total Deposits

Carrying Amounts
<u>409,391.38</u>

TOWNSHIP OF ISABELLA
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 3 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	192 256 60
Uninsured and Uncollateralized	<u>222 221 29</u>
Total Deposits	<u>414 477 89</u>

The Township of Isabella did not have any investments as of March 31, 2006.

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance 4/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/06</u>
<u>Governmental Activities:</u>				
Land	12 000 00	-	-	12 000 00
Buildings and improvements	121 306 00	7 078 29	-	128 384 29
Equipment	<u>19 735 00</u>	<u>-</u>	<u>-</u>	<u>19 735 00</u>
Total	153 041 00	7 078 29	-	160 119 29
Accumulated Depreciation	<u>(97 330 39)</u>	<u>(4 411 67)</u>	<u>-</u>	<u>(101 742 06)</u>
Net Capital Assets	<u>55 710 61</u>	<u>2 666 62</u>	<u>-</u>	<u>58 377 23</u>

Note 5 – Pension Plan

The Township has a retirement plan that covers all elected officers. Under the plan the Township pays all of the cost which for the year ended March 31, 2006, was \$9,164.35.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Isabella does not issue building permits. Building permits are issued by the County of Isabella.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 9 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>1 191 22</u>	Current Tax Collection	<u>1 191 22</u>
Total	<u>1 191 22</u>	Total	<u>1 191 22</u>

TOWNSHIP OF ISABELLA
Isabella County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	45 400 00	45 400 00	45 023 85	(376 15)
State revenue sharing	120 000 00	120 000 00	124 039 55	4 039 55
Charges for services	2 000 00	2 000 00	2 216 88	216 88
Interest	300 00	300 00	7 356 76	7 056 76
Rent	1 500 00	1 500 00	1 992 00	492 00
Miscellaneous	15 100 00	315 100 00	336 312 40	21 212 40
Total revenues	184 300 00	484 300 00	516 941 44	32 641 44
Expenditures:				
Legislative:				
Township Board	11 700 00	11 700 00	6 155 99	(5 544 01)
General government:				
Supervisor	24 000 00	24 000 00	19 416 15	(4 583 85)
Elections	4 000 00	4 000 00	-	(4 000 00)
Clerk	14 000 00	14 000 00	11 895 26	(2 104 74)
Board of Review	2 200 00	2 200 00	1 734 40	(465 60)
Treasurer	15 700 00	15 700 00	14 495 18	(1 204 82)
Building and grounds	4 100 00	4 100 00	3 097 65	(1 002 35)
Cemetery	7 900 00	7 900 00	6 477 70	(1 422 30)
Public safety:				
Public safety	49 000 00	49 000 00	47 657 79	(1 342 21)
Public works:				
Highways and streets	229 300 00	529 300 00	379 541 72	(149 758 28)
Street lighting	1 200 00	1 200 00	990 68	(209 32)
Culture and recreation:				
Parks	9 700 00	9 700 00	8 817 38	(882 62)
Other functions:				
Insurance	6 100 00	6 100 00	5 225 00	(875 00)
Retirement	13 000 00	13 000 00	9 164 35	(3 835 65)
Payroll taxes	800 00	800 00	635 82	(164 18)
Contingency	5 000 00	5 000 00	-	(5 000 00)
Capital outlay	20 000 00	20 000 00	7 078 29	(12 921 71)
Total expenditures	417 700 00	717 700 00	522 383 36	(195 316 64)
Excess (deficiency) of revenues over expenditures	(233 400 00)	(233 400 00)	(5 441 92)	227 958 08
Fund balance, April 1	233 400 00	233 400 00	414 833 30	181 433 30
Fund Balance, March 31	-	-	409 391 38	409 391 38

TOWNSHIP OF ISABELLA
Isabella County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2006

Township Board:	
Wages	5 125 00
Dues	865 65
Miscellaneous	165 34
	<u>6 155 99</u>
Supervisor:	
Salary	7 275 00
Supplies	3 072 30
Assessing contracted services	8 800 00
Miscellaneous	268 85
	<u>19 416 15</u>
Clerk:	
Salary	10 650 00
Deputy	100 00
Supplies	76 68
Education and training	880 85
Miscellaneous	187 73
	<u>11 895 26</u>
Board of Review:	
Wages and supplies	1 734 40
	<u>1 734 40</u>
Treasurer:	
Salary	11 325 00
Salary – deputy	1 050 00
Printing and publishing	23 01
Supplies	1 618 17
Miscellaneous	479 00
	<u>14 495 18</u>
Building and grounds:	
Wages	600 00
Supplies	140 00
Repairs and maintenance	190 00
Utilities	2 167 65
	<u>3 097 65</u>
Cemetery:	
Wages	550 00
Contracted services	3 500 00
Repairs and maintenance	150 00
Miscellaneous	2 277 70
	<u>6 477 70</u>
Public safety:	
Contracted services	47 657 79
	<u>47 657 79</u>
Highways and streets:	
Contracted services	379 541 72
	<u>379 541 72</u>
Street lighting	990 68
	<u>990 68</u>

TOWNSHIP OF ISABELLA
Isabella County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2006

Park:

Wages	600 00
Repairs and maintenance	2 240 34
Utilities	1 736 16
Contracted services	3 500 00
Miscellaneous	740 88
	<u>8 817 38</u>

Insurance	<u>5 225 00</u>
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Retirement	<u>9 164 35</u>
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Payroll taxes	<u>635 82</u>
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Capital outlay	<u>7 078 29</u>
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Total Expenditures	<u><u>522 383 36</u></u>
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TOWNSHIP OF ISABELLA
Isabella County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended March 31, 2006

	<u>Balance 4/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 3/31/06</u>
<u>Assets</u>				
Cash in bank	<u>203 81</u>	<u>1 456 130 76</u>	<u>1 455 143 35</u>	<u>1 191 22</u>
Total Assets	<u>203 81</u>	<u>1 456 130 76</u>	<u>1 455 143 35</u>	<u>1 191 22</u>
<u>Liabilities</u>				
Due to General Fund	203 81	53 221 37	52 233 96	1 191 22
Due to other taxing units	<u>-</u>	<u>1 402 909 39</u>	<u>1 402 909 39</u>	<u>-</u>
Total Liabilities	<u>203 81</u>	<u>1 456 130 76</u>	<u>1 455 143 35</u>	<u>1 191 22</u>

TOWNSHIP OF ISABELLA
Isabella County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year Ended March 31, 2006

Cash in bank – beginning of year	<u>203 81</u>
Cash receipts:	
Current property tax	1 456 064 25
Interest	<u>66 51</u>
Total cash receipts	<u>1 456 130 76</u>
Total beginning balance and cash receipts	<u>1 456 334 57</u>
Cash disbursements:	
Township General Fund	52 233 96
Isabella County	761 206 99
Chippewa River District Library	68 322 98
Mt. Pleasant Public Schools	444 957 61
I.C.T.C.	39 431 58
Beal City Public Schools	87 129 90
Refunds	<u>1 860 33</u>
Total cash disbursements	<u>1 455 143 35</u>
Cash in Bank – End of Year	<u><u>1 191 22</u></u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

June 27, 2006

To the Township Board
Township of Isabella
Isabella County, Michigan

We have audited the financial statements of the Township of Isabella for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Isabella in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Isabella
Isabella County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be required to be implemented for the fiscal year ended March 31, 2006. The implementation of this pronouncement for the Township of Isabella began with the year ended March 31, 2006. The daily operations and recording transactions did not change significantly, however, the Township is required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2006.

To the Township Board
Township of Isabella
Isabella County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants